Two measures of WIP:

Physical Units	Equivalent Units
- Real units - Not altered by material inputs or conversion	- For costing purposes - Increases with addition of material input and conversion costs - Identical to physical units when completed/transferred out

Calculating average cost under process costing:

Weighted-Average	First-In, First Out (FIFO)
- Average cost per unit is calculated by dividing the total accumulated cost (*regardless of when it was incurred*)	- Separate out the costs incurred in **prior periods from current** - Separately calculate the average cost per EU for units from **current and previous period** - Assume: beginning WIP → first to be completed and transferred out - Followed by units that were started and complete in the **current period**

Cost method's impact on FS:
- Rising cost
    - o FIFO > WAM
        - ▪ Profit
        - ▪ Value of ending inventory
- Falling cost
    - o FIFO < WAM
        - ▪ Profit
        - ▪ Value of ending inventory

Transferred-in Costs
- One firm's FG may be another firm's raw materials
- One department's completed units transferred out→another department's inputs

Hybrid costing:

- Most firms are not pure jobs shops, nor pure mass producers
- Incorporate features of both a job shop and mass producer, the accounting must follow → production technology

- Operation costing
    - Basic cost object: work order
    - Inputs are work-order specific
    - When produce a relatively wide variety of closely related products/services

Matching of pattern of resource consumption
- Both manufacturing and service firms can use any of the three systems to assign costs to products and services
    - Job
    - Process
    - Operation
- Not one is better than the other
    - All face threat of inaccurate cost allocation
- Better one:
    - Match the pattern of resource consumption of the product/services produced by the organisation
        - i.e. identical vs. different

Allocating support department costs to operating departments:
Supporting departments:
- Provides services to other departments in the organisation
    - Including other support departments
Operating departments:
- Add the most visible value to product/services to the end customer

To allocate support department costs to units of output:
1. Allocate support costs to operating departments
2. Allocate the resulting operating department overhead to products and services
3. Allocate to each unit of product produced

Methods in Calculating:
Three options:
1. Ignore interdependence → Direct Method
2. Partial recognition → Step-down Method
3. Full recognition → Reciprocal Method

Direct method

Support Dept 1's cost

Support Dept 2's cost

Production Department 1

Production Department 2

Step Down method
(assume we start with Support Dept 1)

Start with the support department that provides more support to the other

Doing that maximises the presence of interdependence

Step 1

Support Dept 1's cost

Support Dept 2's cost

Prod Dept 1

Prod Dept 2

Step 2

Support Dept 2's cost

From step 1

Prod Dept 1

Prod Dept 2